Uruguay Round/NAFTA as Tax Reductions

Summary

In the absence of Uruguay Round, duties collected on U.S. imports from non-NAFTA countries in 1999 are estimated to have been as much as $21 billion higher. Without the NAFTA, U.S.-Canada Free Trade Agreement or Uruguay Round duties collected on imports from Canada and Mexico are estimated to have been as much as $14 billion higher ($2.6 billion higher for Mexico and $11.6 billion higher for Canada).

The following estimates were made quickly and represent a first approximation of the tax reducing effect of the Uruguay Round (UR) and the NAFTA.

Uruguay Round

Assumptions:

- The level of U.S. goods imports from non-NAFTA countries was $716 billion; this figure was used to calculate tariff revenues both for 1999 as they were in fact and as they would have been without the UR. (It is reasonable to think that U.S. import levels would have been somewhat less than $716 billion in 1999 without the UR; no attempt to reduce the level of 1999 imports was made due to time constraints).

- The U.S. average tariff for all goods imports (non-NAFTA) was calculated to be 5.8% in 1989, in fact, and 2.8% in 1989 had all all U.S. UR commitments been full implemented in that year. These average tariff rates were applied to the 1999 level of U.S. non-NAFTA imports. (Source for tariff averages: World Bank: The Uruguay Round: Statistics on Tariff Concessions Given and Received.)

- Applying the 1989 tariff averages to 1999 trade assumes that the distribution of U.S. imports by tariff line remained unchanged from the earlier to the later period. It also assumes that no other changes would have been made to the U.S. MFN tariff rate other than the UR. Again, time and resource constraints did not provide a reasonable alternative to these assumptions.

Calculation and Result:

1999 tariff collections on non-NAFTA imports without the UR would have been $41.5 billion (5.8% X $716 billion); with the UR, $20.1 billion (2.8% X $716 billion). The difference or first approximation of the UR tax cut for non-NAFTA imports is **$21.4 billion**.

The NAFTA (Including the U.S.-Canada FTA)

Mexico:

The pre-NAFTA U.S. average duty on imports from Mexico was 4.0%. In 1999 the U.S. tariff phaseout under the NAFTA vis a vis Mexico was at least 60% completed. We used an average U.S. tariff on imports from Mexico of 1.6% in 1999 (40% X 4%). With U.S. imports from Mexico of $110 billion in 1999, this implied a **tariff reduction of $2.6 billion** or the difference between $4.4 billion in duties that would have been collected without the NAFTA (4% X $110 billion) and $1.8 billion (1.6% X $110 billion in duties that are estimated to have been collected with the NAFTA.

Canada:

Imports from Canada in 1999 were roughly $200 billion. Without the NAFTA/CFTA/UR, the duty faced by imports from Canada was assumed to be 5.8% (the MFN rate just prior to the UR). The actual rate with the 3 agreements is virtually zero. This implies a **tariff reduction of $11.6 billion** on imports from Canada or the difference between $11.6 billion in duties that would have been collected without the NAFTA (5.8% X $200 billion) and $0 billion in duties that are estimated to have been collected with the NAFTA/CFTA.

The 5.8% duty average for all imports from Canada without the 3 agreements may be overstated to some degree because of the prior existence of the U.S.-Canada Auto Pact. There are other reasons to think that the pre-UR average MFN tariff rate for U.S. imports from countries other than Mexico and Canada is not a good proxy for the pre-UR, no CFTA rate that would have been applied to Canada. There was however, given time and resource constraints, no convenient way to estimate an average import duty for Canada separate from that for all countries other than our NAFTA trading partners.